The World-Wide Depression: Ways Out

discussed by

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The World-Wide Depression: Ways Out

MR. JAMES G. McDONALD, Chairman

THE SUBJECT today is "The World-Wide Depression: Ways Out." It is our hope that each of the speakers will directly or indirectly bring in some of the international implications of the problem, but if they do not, we can at least have the assurance that if here in the United States we can set our house in order, it will be helpful to everybody else.

The first of the speakers today is an economist who is a professor in a law school. Professor Walton H. Hamilton, of the Yale Law School, will speak to us now.

PROFESSOR WALTON H. HAMILTON

MR. TOASTMASTER, LADIES AND GENTLEMEN: It is with some embarrassment that I come before you at this time because the topic is not of my selection. I know there is a depression. I do not know the way out. I do not even know the way to the way out. But I shall confine my remarks very largely to a way to a way out of the depression, trusting that the revolutionists who are to follow me, Mr. Dennison and Colonel Rorty, will tell you in detail what I may fail to present in general terms.

All of us have been very much interested and somewhat depressed by the events of the last few months. We are inclined to look at those events as constituting a crisis. They are significant not so much because they constitute a crisis as that they reveal the nature of the economic order under which we live. What we see in very vivid terms is only the result of the operation of forces which are constantly sweeping our society into its unknown future. The phenomena we see in very colorful and striking detail are present beneath the surface in time of peace. We are confronted by a startling economic paradox. Two things strike us. One is that our industries have a capacity to produce decidedly in excess of the product turned out even in flush times. The second is that there are many in our midst who could use a little bit more of the good things of life than they are getting; or there is a potential capacity to produce and a potential

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capacity to use vastly in excess of current production and current consumption. Yet that excess capacity and the excess demand are not brought together. This means that the problem is primarily one of organization.

During the last century we have made tremendous technical progress. We have learned much about what our resources are. Our dependence is not primarily upon our resources but upon our technology; for it is only as our engineers work out ways of using things that we discover what our resources actually are. For an illustration, compare the catalog of wealth which was set down by Caesar in that still best seller "The Gallic War," with the catalog of England's resources at the present time. Remember even as late as the year 1750, a scientist remarked upon the very peculiar sensation which he experienced by stroking the back of a cat, not realizing that he was in contact with a force called electricity, destined to recreate our culture.

The problem we are facing is not one of our own creation. That is the way with old Father Time. Man writes his formulas and then time and chance, while he is not looking, come in and rewrite them. None of us ever intended to get into the difficulties in which we are at this moment. I attribute the situation very largely to the coming together of two factors in what Mr. Jefferson would probably now call the course of unintended events. One of those is a revolution such as has never been known in history before, one led by those arch-radicals, Mr. McCormick who created the reaper, Mr. Bell with the telephone, and Mr. Edison with his electrical inventions, in the wake of whom followed people who put the apparatus of the new industry to use, Mr. Harriman, Mr. Rockefeller, Mr. Carnegie, Mr. Hill and their kind. These people wrought for the most part with the end in view of solving the particular problems with which they were face to face, but without any regard to the established ways of living and thinking and valuing of our fathers. Quite oblivious to the effects of it all upon the whole of our culture, they turned loose new forces in the world.

The result has been that our civilization has been practically remade by three things: one, the machine technic; two, the pecuniary calculus, bookkeeping, money, accountancy, the cash nexus which binds industries together; and, third, the corporation, a very ingenious device which enables a cooperative business enterprise to carry on under the pretense that it is an individual engaged in business. Very largely through these, then, our new system has come into being, a system which I should call the great American collectivism.

There have been in the past two individual systems in this country. The first was a pioneer system, the one in which the individual really made his living by his own efforts from a piece of land. The second was a system of petty trade, in which the individual, a real person, was in business on his

own, for better or for worse. Those days and those bygone systems are very hard for us to understand. At that time there was in existence a thing called private property, property which was really tangible. There was also liberty in the sense in which Blackstone used it, meaning being out of jail, and all of that sort of thing. In those days there still existed a system of individualism.

Along with the new technology, built about this very individualism, has come the second of the two great causes. It is a scheme of thought which we have inherited from England, a scheme of thought that runs in individualistic terms, the individualism of petty trade. It hails from the day when a person went into business for himself, with a hand or two, a handful of capital, and little by little, by digging in and doing his best, carrying on as well as he could from year to year, keeping one eye upon his profits, the other eye upon his rivals, using his own shrewd judgment in making the best accommodation he could, he established and maintained himself in business.

In this great collectivism of the present we tend to think about our problems in terms of this system of individual thought which we have borrowed from England. We talk as if there were still private property in the individual sense. We talk, even courts occasionally talk, though for the most part they have gotten out of the habit, of property as if it were a simple, tangible thing, and not paper certificates of ownership. We talk of free enterprise as if a person could go into an industry or trade as he pleases. And, if by chance we are dissenters and want to attack the present system, and insist that it is not good, again we borrow a scheme of thought from the old world. We refer to Socialism or Communism or something of the kind as if it were a simple and clear-cut scheme of arrangements. We criticise and attack as if the problems we face, the difficulties that we see ahead, are due in some way to rivalry or friction between different classes.

This is of course not peculiar to us. It has been true in practically every age of rapid change that the universes underneath people's hats, the ideas in their heads, the thing that impels them to do this and to leave that undone, for the most part belong to a world that is past and not to the world of the present. It happens that people in due course of time do give attention to their problems. Eventually they find something like a way to salvation; and when they do, then that very interesting and useful group of persons called theorists and philosophers create good reasons, set their arguments in orderly arrays, and finally contrive great systems. These are eventually expounded in books; two generations later they are printed with a few lines at the top and a great margin of comment as if they were relevant to the very different affairs of the generations which come later.

As for a way to a way out, may I make three or four remarks which fall short of being suggestions? One is let's not talk about individualism any more. There is at the present time nothing that Thomas Jefferson would recognize as individualism, nothing that John Stuart Mill could set down as a telling illustration in his essays upon that particular subject. The plain truth is that our society is a great collectivism. If you look at our industrial system from the point of view of technology, it is evident that it has been socialized. Now an establishment is generally run by a corporation. A corporation has a charter, a board of directors, and a group of officials. If you examine its actual operation, you will find it subject to a most complicated scheme of control. Each person does what he does, but he acts in an official capacity, with an eye to what others are doing, towards a certain definite corporate result. Our various establishments are loosely organized into industries which are, I think I can safely say, at least as orderly as they are orderly.

The system, made up of more or less orderly industries, may or may not work. In coal, the capacity to produce is certainly decidedly twice what can be consumed; that on the basis of very poor engineering practice. Introduce the kind of engineering practice which one of the gentlemen to my right would introduce, and all the coal that is turned out could be turned out by a great deal less than one-half of the personnel now employed. In the industry of cotton planting property has become a negative sort of a thing. One simply cannot afford to own cotton land any more. If you discover a friend faring forth to present you with a cotton plantation, you should shun him as you would shun a pestilence. There property is to be set down as taxes and liabilities. It possesses little of anything which a good medievalist would describe as perquisites. There the capacity to produce is vastly in excess of what can actually be turned out. The farmer may work as he has worked before, but he is face to face with conditions which are beyond his control and those conditions stand between the effort that he has put forth and the reward which he gets. So, too, it is with many others of our disorderly industries.

Engineering, or the art of technology has advanced, but the art of economics has lagged. We have not consciously and deliberately tried to set our economic house in order. The little that has been done is for the most part the work of business men who have been looking ahead, or it has emerged as a by-product of the application of business minds to their own particular affairs. In all of it there has been little regard to the nature of an industry and the incidence of immediate activity upon the economic order. We need, then, to recognize the necessity for control, and a word needs to be said about the nature of this control.

Business is, at the present time, all of it affected with a public interest. A person who runs a business establishment, the group of people who

together conduct a great industry assume responsibility for the welfare of a host of people. It seems to me that either they should voluntarily assume—or we ought to demand of them—some surety that this duty will be properly discharged by them; that there will be order, that there will be efficiency, to the end that the welfare of those who depend upon an industry will be properly looked after. I do not like the antithesis between public or private. Business has a public aspect; business has a private aspect; neither is to be elevated to the exclusion of the other.

Likewise for the question of centralization or decentralization. Discretion must be near to the facts; and, therefore there must be a very large measure of discretion on the part of those at the head of businesses, in control of departments, and even on the part of individuals. Here is a place for individualism, not the old individualism such as Jefferson would recognize, but a new individualism. But there must also be centralized control of the conditions upon which the general welfare of the people in an industry rests.

In coal, if the general conditions could be controlled, people could run their own mines with knowledge of what lies ahead. If in cotton planting some way could be found to control capacity and to prescribe general conditions, the person in charge of a farm, or even a firm where there is corporate farming, could give his attention directly to his own problems. There is no choice of centralization or decentralization; the real question is finding where each function belongs and seeing that its performance of that function is entrusted to the person or agency which can best discharge it.

May I confess, too, to a prejudice against general recipes given for putting industries in order. I know very little about industry; I know just a little bit about two or three separate industries. Those that I studied a bit I have found to be quite unlike one to another. A prescription which will fit one will not meet the needs of the other. I don't know how it came about, but in the work of creation, a bit of unlikeness, as well as a bit of likeness, came into the world. In the old days when we took all our intellectual formulas from theology and wanted all our propositions to be symmetrical, and believed all truths to be so universal we could put them down in black, bold-faced type, we could talk about even our larger affairs in very simple terms. Now unlikeness is here, and we have recognized it; in our plans to put industry in order we must take it into account.

This means that I for one do not like to adorn my creed with words like Capitalism—which I have never been able to understand—or Socialism, which doesn't seem to be of much help to me. Whether we call our great collectivism Socialism or Capitalism does not much matter. Each leaves

us with particular problems to be solved in particular ways. In any event we cannot escape the specific question of funds for financing new ventures, an adjustment of labor relations, the organization of industries. Words must not blind us to a reality which lies in particular problems, each of which demands its specific attack. Moreover, the industrial system of this country is not uniform. It is a most complicated thing. The pattern is an extremely variable pattern. It cannot be reduced to uniform truths and simple lines—save in textbooks which are written to be taught to people who can make a living by teaching others. The world in which we live is not one of black and white.

At this crisis, we must, then, recognize the necessity for the creation of a control over the new collectivism of business which has already come into existence. The proper scheme of organization is not likely to be worked out by the state; for the state is an invention of another age old society. It performs its established functions admirably; but an organization and oversight of industry do not lend themselves easily to political control.

An industrial society must eventually create its own scheme of control. That will emerge very largely by making establishments in industries more responsible. It will come, when it comes through the creation of a government of business within business, a government which will not lose sight of the ends and will employ technical and industrial processes and mechanisms in the service of an economic order.

May I close by quoting a very simple text and adding another? Havelock Ellis, in his book, "The New Spirit," refers to the accomplishments of St. Francis of Assisi who, he says, "set out to bring people to sweetness and light and left in his wake a plague of gray friars." It seems to me that the problem of control is to bring business to efficiency and order and performance for the good life without leaving in its wake its own plague of gray friars.

THE CHAIRMAN: The second speaker is neither a lawyer nor a professor; he is an industrialist, the head of one of our successful industries and one of our most progressive industries. It is a very great pleasure for me to introduce to you Mr. Henry S. Dennison, President of the Dennison Manufacturing Company.

MR. HENRY S. DENNISON

MR. TOASTMASTER, LADIES AND GENTLEMEN: The international implications of my talk will be indirect, not direct. If they lie in it at all, they lie in the assumption that what individual business managers may possibly do in this country, they may also possibly do, though I must confess in my own belief with somewhat less freedom of action, in countries abroad. I, no more than Professor Hamilton will be able to point a way out. I shall only speak, as I must speak on account of the limitations of my own ignorance—let me say the limitations of my own knowledge, to be a little more accurate, of what business managers may, to whatever small extent, be able to do. It may not constitute a way out. It may not even help materially towards the way out, although I myself believe it will. But at least it is the attempt of each person in whatever position he or she finds himself to do his utmost.

When anyone who knows the inside of a business manager's job asks himself what any single company—even a large one—can do to help in times like these, and what it can do in the even more important task of preventing their constant recurrence, the possible accomplishments will seem very small indeed and very unimportant; and, of course, in themselves they will be. Yet the accumulated effect of small steps taken by each of the tens of thousands of companies in this country can be a matter of very great importance. It is a good deal now as it was during the World War—no one private, sergeant or captain—and, in fact, no one battalion or regiment, could win or lose the war; and yet the war could not be won unless practically every unit in the great army acted as if the whole outcome hinged upon it.

But even if the accumulated effects were to prove smaller than I feel confident they can be, I should still want to make as my first point this afternoon the emphatic need that each separate captain and colonel and general in the business world should go the limit in doing his own full share. For however much the modern economic system may be judged to have done in raising the standards of living for employees, there is no gainsaying the fact that its chief beneficiaries have been the owners and the managerial forces. And if there are among them those who cannot see that this fact imposes a clear obligation, it may be they can at least heed the warning that no man of common sense can safely expect the world, as it is organized politically today, to accept forever and with cheerful resignation a continual recurrence of that disease of the economic system which we call unemployment.

From among specific measures I shall mention as possible for individual businesses to institute, I want to choose one from our own experience and place it first for reasons which will, I hope, become clear.

Since its beginning in 1844 our company has passed through, and survived, many depressions, mild and severe; but until the depression of 1908 we had thought of them much as epidemics had been thought of before the birth of modern medicine—as unfortunate visitations which we could not account for, and devoutly hoped would never happen again. Then we began to realize that if it should turn out that such periods were recurring epidemics in the business system for which we might undertake some measures of preparation, even if we could not accurately foresee just when we were going to catch them, this passive attitude was really inexcusable. The burdens of unemployment had borne too heavily upon both the company and its employees to be put up with complacently, and anything, however little, which might be done was better than doing nothing.

Progress was slow, but in the first years something was accomplished towards smoothing out the worst of the extremes of overtime and part-time which came each year at different seasons. But in 1915, after the severe unemployment of 1914, we took a step which has ever since given us a permanent and pointed interest in the problem. We figured that if it was good business sense to make some reservations out of profits in good years so that *dividends* might not fall so severely in bad years, then it was equally good sense to set up similar reserves from which, during times of unemployment or partial employment, some part of the losses to wage earners could be lessened. So we made a reserve out of the profits of 1915 which was added to in the succeeding years, and placed it in the control of trustees for such use. The exact rules for its distribution were to be drawn up and amended from time to time, as experience should dictate, by a joint committee of two from the management and two representatives of the employees.

Since 1921 the fund has been drawn upon to make up the pay of our permanent force of wage earners whenever they had to be laid off for lack of work, those with dependents getting approximately 80 per cent of normal rates, and those without dependents approximately 60 per cent of normal. We could not guarantee such payments for all time because we had no sufficient records of experience to tell us what such a guarantee would involve, but payments were to continue as long as the fund lasted, and have continued, as a matter of fact, without any interruption to date.

The effects of this scheme have been very striking. Undoubtedly it has afforded welcome relief to individuals and probably has held the purchasing power in our community up somewhat higher than it would otherwise have been; and we are assured that it has added a good deal to that feeling of security and confidence without which employees suffer in spirit and in working ability as well. But even more valuable have been its effects in stiffening and refreshing the determination of every one who is

connected with the management, from salesmen and department-heads to general manager, by careful planning and all possible foresight to make payments from the fund as little necessary as they can.

These effects are all the more interesting since the fund is quite out of our control and no one in the management can gain anything directly in a financial way by saving it. They are closely parallel to the effects of the fire insurance premiums of more recent years in waking us up to the desirability of fire prevention, and of accident compensation premiums in making us active in preventing accidents. In all these three cases alike, we should really have enough to gain by preventive measures to warrant strenuous thinking even if there were no penalties in hard cash. But, unquestionably, in each of these, efforts at prevention are given energy and focus by the impressive reality of such penalties. This is what makes us so strong in the belief that an unemployment fund, however much it may help the wage earners, is likely to be of even greater value to the company itself. For in every slack period, whether it is an off season or an off year, the losses to the company in fixed overhead costs are often as great, and in heavy industries are sometimes greater than the payroll losses to employees.

Our unemployment fund did not originally plan to cover any payments to those who might be laid off permanently, for whom, for one reason or another, no permanent place could be found in our organization. It applied primarily to the trained staff. But gradually as it was being used, logic forced us to consider some cushioning payment to those whom we had to lay off for keeps, a separation allowance, as it is now coming to be called. Our experience with this form of unemployment relief is short, but over the last twelve months we have been feeling our way and have paid considerable amounts for this purpose. Its influence will undoubtedly add to the good influences of the older scheme, and will especially tend to make us even more careful when planning expansions, temporary or permanent, that we do not fall into the error of unwise over-expansion, which is surely one strongly contributory cause of the alternating periods of prosperity and depression.

Now I believe this separation allowance deserves a lot of thinking-out and experimentation. In its simplest form it is the payment of two or three or more weeks' wages at the time of final lay-off. But these amounts might vary with length of service, with age or with the number of dependents whom the person laid off must support. It might be paid from a fund contributed to by both employer and employee and be worked out along insurance lines. It is at any rate something which can be tackled —even if only in a small way—by individual concerns whereas it would be wholly impracticable for them separately to undertake any continuous dole scheme.

And in its dynamic reactions upon the whole economic structure I am inclined to think the time-limited payment of separation allowances might prove more wholesome than smaller, but more extended payments in doles. In the only test case I know of, that of the cutters in the Chicago men's clothing industry, the indications certainly pointed that way. I earnestly hope those officials who are now coming to a serious consideration of state unemployment insurance laws will take these possibilities into account. But I still more earnestly wish that employers, singly or in trade groups, would act so promptly and vigorously in instituting for themselves measures of unemployment relief and prevention that states might safely and wisely wait upon their experiments.

I feel sure as I have said that the reserving of funds out of profits or surplus during normal times for relief of unemployment is of definite value for individual concerns and of still more for the whole business structure. It strikes at the very roots of the evil both by checking undue expansion and filling in the lowest depths of depression. The establishment of unemployment funds, moreover, requires no new or complicated machinery or statistical records. A moderate amount to begin with may be set aside out of profits or surplus, like any other reserve. Some companies even today, although making an unsatisfactory operating showing for the year, have, nevertheless, reserve assets from which a start can be made. And a little may go a long way: in the Dennison Company, during the past ten years, the payments have not averaged one half of one per cent of the total payroll, and even over the worst ten months of this year have not exceeded two per cent. Even small sums may relieve great needs, and such sums may be withdrawn from years of business activity at an individual cost hardly to be felt, and yet at a very real advantage to society as a whole.

Have we not a right to hope that some day a wage earner will no more be expected to give his life's work to a concern without some marginal security against times of stress than a bank is now expected to make loans without just such a margin of security?

Unemployment funds set up action and reaction. Their direct action is to help in any present period of unemployment; their reaction is to sting employers into a healthy irritation and make them think of putting the screws on. Through them we get that positive spur which cold cash outlays exert, which is direct and actual and not to be argued away as easily as estimates of possible future indirect losses can be. They offer very practical arguments against undue expansions at the peak of the cycle, and for the toughest kind of thinking as to what can be done to keep things moving in the cycle's trough.

Now just what are some of the things which business managers can do to help regularize production and diminish unemployment? In the first place there can be established capable personnel directors or departments who will bring to a focus and will feel definite responsibilities for all irregularities which affect the employees. Such a man or department will feel at once the inadequacies of capricious discharge and the wastes of hiring for one department while laying off from another or of hiring in heavily for a short season only to discharge again in a few weeks or months. The preventive measures may not all be obvious or easy, but there will at least be one man whose job it will be to stir up everyone to find them.

As a matter of fact, while preventives for all seasonal irregularity have not yet been found, there has grown up a large body of practice among a wide variety of industries which have gone a long way. These have been described in some detail by Herman Feldman in his book "Regularization of Employment" and are covered still more fully out of the practical experiences of two hundred and fifty companies in a book on seasonal unemployment by Edwin Smith to be issued soon by McGraw-Hill. They run from the training of special crews of employees for several kinds of work to a fully and carefully balanced scheme of merchandising.

Now steps towards seasonal regularization may be quite inadequate to meet the fluctuations due to the business cycle. Yet before passing on I want to say this for them. They offer an excellent elementary training course; they usually afford very definite suggestions and aways help in developing the frame of mind which is willing to acknowledge the problem as one to be faced—not run away from—and worked on until some beginnings of solution are found.

In the trough of the cycle the steps which can be taken by business management alone are, so far as we know now, insufficient to meet the needs of the situation. Yet there are some steps which solvent companies can take. They can to a small extent keep up a reasonable stock of some staples or staple parts, and especially those of high labor cost and small bulk. They can undertake many projects of advance repairing and conditioning of machines and other equipment. This is especially worth while since in busy times repairs and changes interrupt production seriously and often have to be done on overtime rates. If repairs and betterments are left until demanded there is a strong tendency for them to run heavy in active years and run out in slack years. The right situation is just the reverse; ideally, equipment should be put into such shape in slack years that it will run through busy times with a minimum demand upon millwrights and machinists, carpenters and painters.

But more fundamental is the control which business management can

exert upon its merchandising policies. One contributing cause of the business cycle is that in active times when production is under pressure the invention of methods and devices for increasing production is greatly spurred, and inventions of product tend to lose in emphasis. Now I believe absolutely that the human race, by and large, can for many years yet to come consume all it can produce. But it certainly will not do so if production confines itself to lines already well established. It is and has been since the Renaissance the development of new goods and new services which has constantly built up consuming demand. But it is chiefly in hard times that the pressures are felt which force inventions of product ahead of inventions of process, and these pressures are recognized slowly and can rarely be met immediately. They result too often, therefore, in goods and services ready for the market only when the market is already active, and therefore in exaggerating and accentuating the busyness of the busy sector of the cycle and in inviting over-expansion. Business management will gradually gain foresight as it gains knowledge of the habits of the cycle, and can then act more promptly in instituting its remedial measures.

We make a mistake, and one which might have serious consequences, in attributing any predominant share of unemployment to mechanization or technological progress. It is just those industries which have made the biggest records in gains in productivity per man which can show the best employment records over the past ten years, while in some aging industries we find low technological progress and high unemployment. But even if there is not a majority of the volume of unemployment due to mechanization, there is a degree of unemployment due to dislocation, which employers will do well to take very seriously. And it is by no means hard for an employer to do a good bit towards reducing this dislocation of workers to the minimum; technological changes don't come overnight, and with considerable warning of their coming it is often possible for a personnel department to arrange so that there will be no dislocation at all. The American Telephone and Telegraph Company in cutting over exchanges from hand to automatic switchboards has done just that, under circumstances which might well have discouraged an ordinary concern from making any attempt at it whatever. A plan for new installations is only half a plan if it does not take into account the employment situation which will result from it.

In the heart of depression there is one thing which employers can do which can be expected to have some immediate and still more future effect in building up and maintaining health in the economic system. They can exercise their ingenuity and determination within their own companies and all their influence in the business world outside to prevent any material drop in the established levels of wages. It is no accident that there is

now a wide interest among business managers in the high wage doctrine; it is because that doctrine is soundly based on the particular present day needs of the whole social order. During the earlier days of the development of new industries and the settlement of new territories the most pressing social need was for capital funds, which could be expected only from those who had fairly wide savable margins of income. In such days the rich might grow richer while the poor actually raised their standards of living. But today the predominant need of settled and industrialized countries is not for capital funds, not for more producing equipment, but for a greater effective demand for the goods produced—for consumers' goods. Consuming demand increases little when the incomes of the wealthy increase, as compared with its increase when real wages advance, whether from decreased retail prices or increased money wages; and it is consuming demand which we need in these days when few new lands are open for settlement and producing capacity is high.

But when all is said and done it is clear that an ounce of prevention is worth a pound of cure and, hence, that the most effective things management can do to mitigate the severity of depressions will and must be done and certainly must be prepared for in days of prosperity. Once get pneumonia and you will find a few things to be done to help and hasten its cure; the best and cheapest method is so to behave when you're well that you escape it entirely, or enter upon it with a long stock of constitutional strength. It is even so with business; the avoidance of over-expansion during booms, the maintainance of balanced and foresighted employment practices, research in advance of need into possible markets and improved merchandise, all store up strength which can be called upon in times of stress. The scramble to get rich quick is not the least important of the contributing causes of business depressions.

Now this planning ahead to store up strength demands foresight; not—except in the most elementary situations—the sort one might expect to gain from the bare resolve: "go to; I will now be foresighted," but an institutionalized, written down, detailed planning of the future, based upon one or more reasoned assumptions of future probabilities. It is this sort of foresight which is at the heart and soul of budgeting: and it is one of the most encouraging facts in the history of American business that budgeting has been gaining a foothold within the past ten years at an astonishing rate. It is a difficult art which will not yield its mastery until after several years of persistent practice, and many errors. But once well under control it seems, like any other art, to have an almost endless capacity for development, intensive as well as extensive. We need not be surprised to hear within the next decade of budgets carried on to two, or three, or four years and carried down into greater and greater detail. We shall have not only financial budgets, but merchandise, equipment and labor

budgets as well. It is this progress in budgeting which will make demands upon economists and economic statisticians they cannot fail to meet.

So much at any rate individual employers can attempt in trying to meet their deep reponsibilities in the lessening of the evil of unemployment. There is still a wide field open to them when there can be found practicable methods of joint action. Our business army is now composed of separate captains — literally of separate companies — each much more concerned in struggling against the others for its place in the line than in fighting the common enemy—social waste, social retrogression, and in the end social disintegration. Only when the enemy is weak can such uncorrelated efforts make progress; and he is at his weakest when rich new lands are being opened up for settlement. In Europe before the great migrations which slowly followed on the discoveries of the western world, the enemy was stronger, and there was regulation of the business world by monarchs, leagues and guilds. Today again he is gaining strength and it is as certain as the future can be that only through economic organization can we hold our own against him.

I'm sure I do not need to say that this is no plea for a mere repeal of the Clayton Act. We shall be little better off — and might be worse — if companies, combined into brigades and divisions, turn then with greater fighting strength against each other and against their customer, the public. It is the road of affirmative, not negative action we must find. And fortunate indeed our business world will be if leaders shall arise within its own ranks who have the power and above all the social vision to find it. The overwhelming and unprecedented difficulties of such leadership no sane man can deny; but can any man deny the vital need?

Employers, singly and in associations, can do much, as I have said, to lessen the severity of times of depression. Just how much cannot now be estimated, and need not be, since in their own interests and that of society as a whole they can properly be expected to do all they can, however much or little it may be. But government, federal, state and municipal, has a share to do also; and finally will find that it must do it quite as much by self-control in good times as by relief measures in bad. When time has softened prejudice we shall all come to realize that five-year planning is essential for all sorts of governments if they are to hold their own against the multiplying complexities of the modern economic order. And most of all, I suppose, will such centred banking influence as our Federal Reserve Board come to realize its tremendous opportunities and, hence, its responsibilities in mitigating the extremes of business cycles. One need not go the whole way with the economists who would lay the sole cause of cyclical swings on the doorsteps of the credit structure, to realize how great these responsibilities are. Through its influence upon interest rates and still more through its powers to buy or sell in the security market and utilize

gold reserves the Federal Reserve can affect the volume of credit which is so vital an element of our total machinery of exchange, and so can exert an important — even if it turns out not to be a finally determining — effect upon prices.

But men like myself who are on the job of business management can ill afford to be too emphatic in pointing out the responsibilities of either government or Federal Reserve Bank until our own doorsteps are just as clean as we know how to make them. We can be sure of one thing anyhow, that recurring depression is so nearly unanswerable an indictment against the present economic scheme of things, epidemic unemployment is so bitter a social plague, that any cleaning up we don't do for ourselves will be attempted one way or another by society — since it must be done. Self-imposed payments which share the burden of part-time employment and soften the severity of permanent lay-off can act as powerful incentives towards prevention and so prove to be worth all they cost. But cost there will be if the economic structure is to allow itself to fall into spasms of depression, and we must face the choice between costs which incite preventive efforts, and doles in one form or another which may, as like as not, work just the other way. Industry and individuals can only ask to be "let alone" — can only demand freedom — to the extent that they are willing to impose self-restraint upon themselves. Restraint of one sort or another there will be in very organized community, a restraint which must increase in scope as the community becomes more and more complex and close-knit in its structure.

THE CHAIRMAN: The third and last speaker before the general discussion period was formerly an industrialist and has now either graduated or degenerated into a banker. We are very happy to have as the concluding speaker in the main discussion Colonel Malcolm C. Rorty, Vice President of the American Founders' Corporation, formerly Vice President of the International Telephone and Telegraph Company, President of the International Telephone Securities Corporation. Colonel Rorty!

COLONEL MALCOLM C. RORTY

MR. CHAIRMAN AND MEMBERS AND GUESTS OF THE FOREIGN POLICY ASSOCIATION: It is quite unnecessary to emphasize the seriousness of the present world-wide business depression. The preceding speakers have emphasized the special obligation that rests upon governmental administrations and upon leaders in commerce, finance and industry, and in

the ranks of labor as well, to cooperate wholeheartedly and unselfishly to relieve the common distress.

There can be no question as to this obligation, nor can there be any advantage in attempting to say who or what is to blame for the situation in which now we all find ourselves. The immediate problem, and in fact the only problem, is to consider how our present difficulties may be remedied.

We in the United States, during recent years, have led the world in a sustained economic progress. The common people of many lands have looked to the adoption of our industrial methods as their hope for better living conditions. Waiters and cabmen and bootblacks in Paris and London, — in Italy and Spain and Argentina — have talked to me with enthusiasm of what series production and American efficiency might do for them and their fellow workers.

This hopeful vision of great masses throughout the world toward the results of our own economic progress is not a matter of mere words or writers' tales. It is a very real and genuine thing, and we have, therefore, not only the obligation to ourselves, but also a very special obligation to our leadership, to set the example of a sane and intelligent working out of the problems that now confront us.

The present depression is, of course, no novelty. Very similar serious depressions were experienced here in 1921, in 1907 and '08, in 1893 and '94, and 1883 to 1885. The depressions of 1883 to 1885, of 1907 and 1908, and of 1921 were also world-wide to substantially the same extent as the present one.

It would be quite possible to say that we always have had depressions — even world-wide depressions such as at present — and that we always will have depressions. We might contend, furthermore, that we always have recovered in due time from these depressions and that we shall so recover from the present depression, if we have only the patience to wait until the recovery comes.

To take this attitude would, however, be to avoid the plain issue.

Our modern economic and industrial system has grown for over one hundred years simply because it grew, and with very little conscious thought or planning on the part of those who were concerned in it. But during recent years, we have come to study this system, to take it apart to see how it *does* work, and to consider how it *should* work. As the result of these studies many of us have hoped that we might hold the alternations of business expansion and depression within reasonable bounds, and might avoid at least the worst part of the unemployment and distress that come with a major business crisis.

It may seem to those who are suffering from the present depression that these investigations have been of little value. However, this view is unjustified. We have actually learned many important things about the ebb and flow of our business and industrial activities, and have made genuine progress in the effort to control the extremes of these fluctuations. There is, in fact, a bitter humor in our present situation — for one of the principle causes of the present depression was the wide-spread belief that we had learned so much about business crises that the danger of serious crises in the future had very largely been removed. From this belief came the "new era" philosophy of 1929, and that wild fever of stock market speculation in this country which was the principle contributor to our present difficulties.

However, this failure of our best laid plans is no reason why we should not plan again. In fact, the experiences of the past two years have served only to indicate the correctness and soundness of the conclusions that have been reached by many careful students of the business cycle. I shall attempt, therefore, in the few minutes at my disposal, to outline those things I think we really do know about business booms and depressions, particularly in regard to what may be done to speed up business recovery when a depression has once taken place.

To begin with, practically all students of business depressions are agreed that the most effective way to prevent a business crisis is to check at the earliest possible stage any tendency toward a prior business and speculative inflation. When promoters, speculators, business men and manufacturers once become enthusiastic and attempt to buy more materials than can be bought, and borrow more money than can be borrowed, and hire more labor than can be hired, a subsequent crisis and depression is practically certain. Proper restraint during periods of prosperity is, therefore, the real cure for most depressions. But it is doubtful if this medicine will ever be popular, for those who attempt to prescribe it will always be accused of trying to ruin prosperity. Such accusations were, in fact, made in the strongest terms against those who attempted to restrain the speculative excesses of 1928 and 1929 in this country.

When a business crisis has once been brought about, it is difficult to control further developments.. Each decline in consumption leads to unemployment, and each decrease in employment leads to a further decline in consumption — and so the vicious circle may repeat itself until consumption is reduced to a close approach to a subsistence level, and we are spending our savings and borrowing to keep going.

If such a decline is not too serious, it is theoretically and to some extent practically possible to check the downtrend by expediting expenditures for public works, and by securing concerted action from industrial and business leaders to maintain the fullest measure of employment.

President Hoover made a very earnest effort to check the present depression in this manner, and if the previous speculative excesses in this country had been less extreme, or if there had been a less serious accumulation of economic strains and tensions throughout the world, it is quite possible that he might have succeeded.

These preventives and remedies are, however, not now of immediate interest. Our present and pressing problem is to climb out of the trough of depression in which we now rest and to restore employment and business activity.

As to this problem, the studies that have been made of the business cycle agree that the most important thing is to make sure that the ground is cleared as completely as possible for the new forward movement. Prices that must eventually be reduced should be reduced now. "Racketeering" and restrictions on production should be eliminated today, and not allowed to linger as a continuing threat against the prosperity that is to come. In each rebuilding of business activity from a depression the most essential thing is to make sure that the foundations for the new prosperity are sound.

Fortunately, however, there is accumulating evidence that this general liquidation and ground clearing has in great measure been completed, and that we can move ahead with confidence from these first days of the new year.

As to this forward movement, it would be a cheerful thing if we might name some single act of the government, or of business leaders, or of individuals, that would restore promptly the prosperity that is sure to come again in its due time. But this cannot be done. There is in fact a great similarity between the vicious downward spiral in which a depression moves, and the favoring spiral by which prosperity is restored. Each single employee put back to work increases consumption, and each gain in consumption adds in turn to employment. No one man or company, and no group of men or companies can start the upturn in business activity — but this upturn can readily be started if all men and all employers set to work steadily, sanely and in full confidence, each to bring his own activities and his own business back to normal.

The possibilities of increases in public works have been largely exhausted. Such increases, unless in themselves directly productive, can result only in additions to taxes that are already unduly burdensome. Furthermore, the total of such work can be but a small fraction of the grand total that might result from the combined efforts of all individuals and corporations.

As General Grant said of specie payments, "the way to resume is to resume." So, in the restoration of business activity, "the way to begin is

to begin." No reckless spending or chance-taking is required. All that is necessary is that each individual and corporation, having at hand or able to borrow the funds to do so, shall start some obviously necessary piece of work—but to do it now rather than later.

None of these items need be large. The farmer can build a new corn crib. The householder can repair the roof of his house. The merchant can replenish a broken line of goods. The manufacturer can replace at least one obsolete machine.

The greatest flood of the Mississippi is made up of individual raindrops and snowflakes. Business prosperity is the visible sum total of a myriad of small transactions. If each man hangs back and waits for his neighbor to work the miracle of improving business, the miracle will never come. But if all combine and day by day add one new step forward to the step taken the day before, the miracle will work itself.

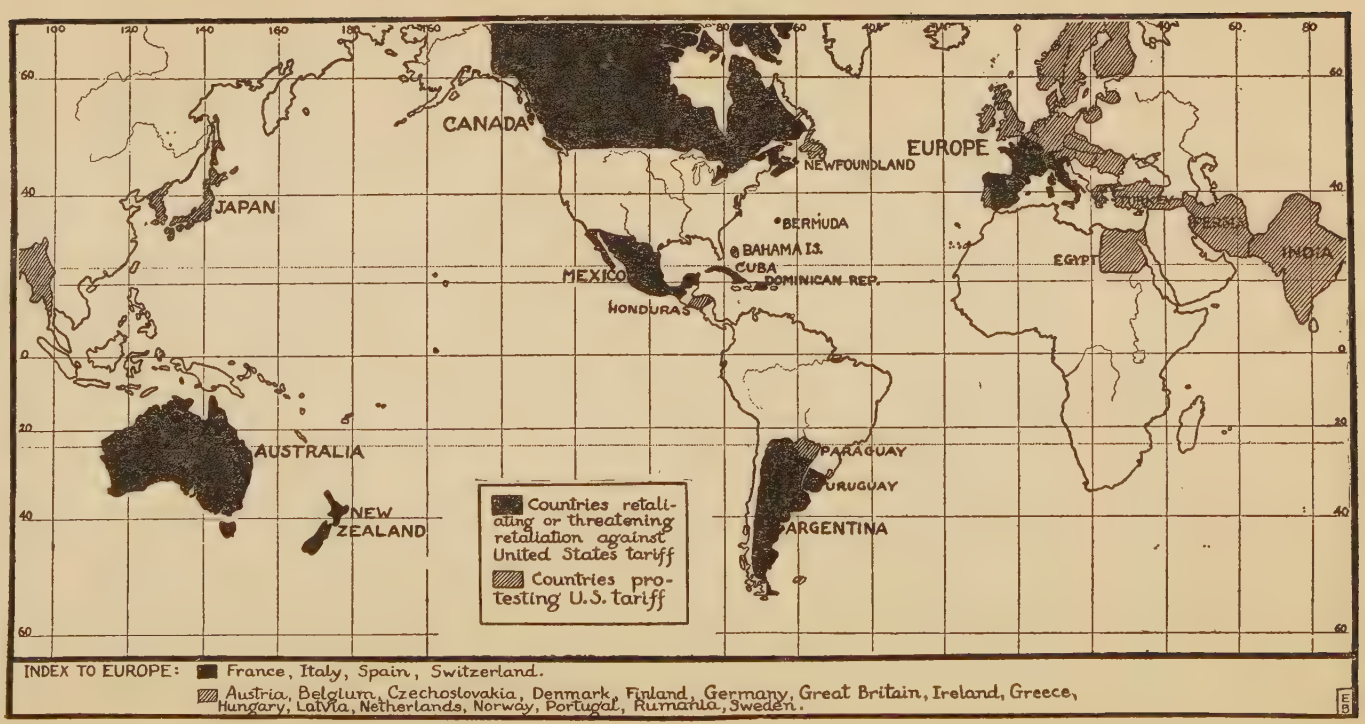
There is no mystery in this rule for restoring business prosperity. It says nothing more than that each man and each corporation should go about his or its affairs in a wholly normal way, but with just a shade more of confidence than the immediate circumstances may seem to justify.

With this much said for the domestic situation it is in order to mention two special points of international interest. The first of these relates to stocks of monetary gold. The special conditions of the post-war period have concentrated the great bulk of these stocks in the United States and France. It is important that some redistribution of this gold shall be brought about before the present excessive concentration operates to check the beginnings of improvement in business. Foreign bankers and our own Federal Reserve authorities are alive to this danger and may be relied upon to arrange the gold transfers that are necessary to correct the situation. The common interest of all commercial countries in this respect is too plainly indicated to be neglected.

The second point of international interest is that of the higher tariff walls that we and other countries have recently built up. Students of tariff systems may be Republicans or Democrats, protectionists or free traders — but, regardless of their fundamental beliefs, all will agree that a bad tariff left alone is usually better than a good tariff that is continually tinkered with. There can be little doubt that our recent tariff tinkering came at an unfortunate time. The sensible move at this moment is, therefore, to give the President the fullest possible backing in utilizing the flexible provisions of the law to obviate the more serious complications that may develop.

I could wish that what I have said might sound more elaborate and impressive—but unfortunately it is the nature of the real remedies for

Foreign Reactions to the American Tariff



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economic ills to be rather homely and unspectacular. However, if we desire, we can find plenty of patent cure-alls for our troubles.

The six-hour day and the five-day week are advocated as certain remedies, in spite of the fact that both experience and theory show that, in the long run, they could have no effect whatsoever on unemployment and would probably increase the cost of living or reduce real wages.

The legalization of 2.75% beer and the reopening of the breweries are also proposed as measures of relief. As to this, we may think what we please of the 18th Amendment, but we should at least be honest with ourselves and admit that what the brewery workers might gain, the children and the shoemakers would lose.

These suggestions, although based on fallacies, carry with them, nevertheless, a suggestion of the truth. The stablization of business activity is inseparably bound up with regularity of employment and the maintenance of consuming power. Plans for stabilizing employment and consumption cannot be effective during the present crisis — but there is no more serious obligation upon industry and statescraft than to make certain that such plans are sanely developed before the next crisis comes.

Automatic savings plans for employees are quite as important, in this respect, as plans for maintaining continuity of employment. If we were wholly logical, which we shall never be, we would require compulsory savings by every employee—and we would set aside 10% of each employee's pay until he had accumulated a reserve of six months' wages which he could draw upon only when ill or unemployed.

However, this plan, I am afraid, is too simple and direct to be favorably considered. It should be supplemented, in any case, by cooperative plans of employers and employees for the stabilization of employment and for unemployment relief.

As to these plans I will make only a few special suggestions. The first schemes should be set up wholly by voluntary agreement between employers and employees. The next stage may be through permissive legislation authorizing wage deductions under specified conditions, and the final stage, whatever that may be, should be arrived at only after thorough and painstaking trial and experimentation. This much, at least, seems certain — that the cost of unemployment relief and of regularizing employment, like the cost of workmen's compensation, should be loaded directly upon the cost of the product and should be paid by the consumer, in effect, as a sales tax. We might better attempt to nurse a live rattlesnake than to permit one cent of taxes or public money to be used for unemployment insurance.

THE CHAIRMAN: Before we begin the question period, I have asked one of the guests here at the speakers' table, formerly a merchant and now a banker, as to whether he will not speak from five to seven minutes, stressing among other things the international aspects of this problem. I am very glad to say Mr. Paul M. Mazur, author of "America Looks Abroad," and a member of Lehman Brothers, has said "yes" to my request.

MR. PAUL M. MAZUR

MR. CHAIRMAN, LADIES AND GENTLEMEN: I suppose there is an implied compliment in Mr. McDonald's suggestion that I cover some aspects of this question in five to seven minutes. Mr. Coolidge has been asked to write the history of the United States in 500 words. To be prophetic in less than 5000 is difficult, and particularly since one isn't a Republican.

I also find that the difficulty has been increased because I have been told by Colonel Rorty, that one of the particular theories I have as a pet one is fallacious. So I start out, knowing that I disagree with Mr. Dennison and having just discovered that I disagree with Colonel Rorty, to make a few suggestions with particular reference to the way out.

It would be wise, of course, if I had the chance, to announce as my own premise what I think the causes of the way in have been; but that is impossible in five or seven minutes. So may I give four or five suggestions, having a fool's courage which comes with comparative youth, to state methods which I think might be adopted, or at least considered? Some of them do agree with Mr. Dennison. Perhaps one of them agrees with Colonel Rorty. And may I say that as far as the general philosophy is concerned, I assure you I agree fundamentally and thoroughly with Professor Hamilton.

The first suggestion: The government should stop attempts to attempt to create abortive increases in industry. I don't agree there has been any thorough liquidation of the industrial situation. In the spring of 1930, there was a marked increase in production which has left as its mark increased inventories, the liquidation of which I am convinced has delayed the recovery of this country.

The second: I would plead with American industry to forget hero worship of Mr. Ford and mass production. Mass production is an essential requirement, providing we have the available markets, but production by itself does not create markets. Any brief or even superficial study of the situation from 1928 to 1929 will indicate that inasmuch as that period was the greatest period of production or over-production, or any-

thing else you want to call it, this country has ever seen and inasmuch as in that very period we were creating the basis of depression, therefore, there can be no alchemy in mass production. In the correlation of production and consumption is the answer to the problem of the necessary economic readjustments, which under present day conditions, have come to us so regularly and so expensively.

Third: I would suggest that we regard the reparation problem a little more constructively. We have assumed in this country that we can surround ourselves with a high wall of isolation. Nevertheless, we are an integral part of the world problem and the conditions created by the *unsettled* condition of the reparation problem had come to roost on our own doorsteps. I happen to believe individually in the cancellation of the debt. I am convinced, with Dr. Schacht, that Germany in its present status is unable to continue the reparation payments so long as tariff barriers make it impossible for her to export her goods. I am convinced that if we do not accept goods, we cannot ship goods and that the situation which now confronts us in our very own export problem is in part due to this unsettled condition of reparations.

Without any question it seems to me incontrovertibly true that the settlement of the reparation question is fundamentally an American-German problem because all they did in the Young Plan was to wish the problem, through a third and fourth party, onto America. There would be much more stabilized world conditions if all nations knew exactly what their responsibilities were in the way of financial payments and their possibilities in the way of export of material goods.

Fourth: I agree thoroughly with the implied criticism of the tariff which Colonel Rorty gave. I think it is the most abortive measure that this country has adopted. I do not think necessarily that a tariff that isn't tinkered with is better than a tariff that is. I propose vehemently that we tinker with this one as violently as we can.

As part of the way out, I think it might be worth while at least to consider foreign financing on a large scale. One form of foreign financing depends upon the investor, because we as bankers are unable to buy what we can't sell — or at least shouldn't consider the purchase of securities unless we can sell them. In 1929 we forgot that. But it might be worth while for the U. S. Government to consider foreign loans, so that we again would have a situation which was so galvanic and so startling during the war when we gave Europe the money with which to buy American goods. Such a program is not a permanent solution of the problem, but it is a temporary solution.

Fifth: I suggest certain more generic things. (I am trying to make one suggestion every forty-five seconds). First, I think it is essential we understand what makes the wheels go round. After all, prosperity

is a man-made thing and we can't deny the responsibility for depression if we accept the responsibility for prosperity. It should be possible for the same men who make prosperity and who inadvertently make depression, to find some mechanism out of this chaos. So long as we leave the problem in governmental hands, in political hands, so long as we leave it among real economists or pseudo economists, the problem probably won't be solved. But certainly it is essential that there should be some body in Washington, some supreme economic council, made up of men like Mr. Dennison, after he has been straightened out in one or two fallacies, who will take this problem from a generic point of view and work it out with no political bias, who will understand the tariff situation as an American problem, not as a world problem necessarily, and will supply American business men with the important information about the coordination of production and consumption, with the necessity of employment insurance with the necessity not to over-expand at the wrong time, and all the rest, and will even support the Federal Reserve when it attempts feebly to raise interest rates.

Sixth: Now I come to Colonel Rorty's fallacy. There are, in my opinion, just as many possibilities of economic invention as there are possibilities of scientific or laboratory inventions, and I believe that the five-day week (and I am a strong proponent for it) offers tremendous possibilities. I would just like to enumerate these: Undoubtedly it means a reduction in the productive time, and just as decidedly it means an increase in consumption time. The reason America has huge markets as contrasted to Europe is not because of population, but because the habits of idle time require so many things with which to keep idle that we haven't time to do anything except buy these accessories. More than that, I think a five-day week would represent an entire revolution of the habits of life. I think you would find a suburban type of country which would probably create the largest building boom this country has ever had. If that is heresy, make the best of it. I believe there would be developed scores of totally new needs and desires.

I am not sure I agree thoroughly with Mr. Dennison when he says practically all the development has come from products satisfying new needs and new demands. But I do think what Josiah Stamp calls "impotent economic stimuli" do come from the development of new needs — radios (whether they are a blessing or not) and all the other things which have come to be recognized as real necessities as a result of the last fifteen years! However, that is a long subject. I just want to put myself on record as being thoroughly in favor of the five-day week.

Seventh: Those of you who haven't been shocked so far, prepare to be shocked now. I believe in the extension of the installment plan.

Again, I would refer to Dr. Schacht. One of his proposals, as you may remember because he spoke to this Association, was that the Bank of Settlements, formed under the Young Plan, should become a bank of finance, that it should issue its own bonds in order to obtain funds and it should use those funds in order to finance backward nations so that they, he said, might in turn buy American radios, American typewriters, German dyes and all the rest. I see no great difference between helping backward people of other nations to buy goods and helping backward people of the American nation to buy goods.

If it is true, as I think it is true, (and here again I can agree with Mr. Dennison) that the problem is primarily one of consumption, what is heinous or objectionable in some instrument, whether it be governmental or whether it be private, which allows those individuals who have desires and who have needs to receive the wherewithal to express those desires and needs in active demands for goods? I propose for consideration as a way out that some plan be found for financing home building, for financing even furniture buying, if you will, in order that the American people shall fill the desires and needs that they have and in order for the American factories to keep active and busy their organizations and their machines. Thank you.

THE CHAIRMAN: I was sure this was altogether too peaceful a meeting at the end of Colonel Rorty's talk, and that is why I invited Mr. Mazur to give a little more of a typical F. P. A. tone to it. After all, three such learned discussions, such gentlemanly discussions as those of Professor Hamilton and Mr. Dennison and Colonel Rorty were a little hard, even for the most intellectual of us, to understand throughout. Now that Mr. Mazur has injected something of a fighting spirit into the discussion, I hope that we may continue it for the remaining portion of our time, which is just about twenty or twenty-one minutes at the outside.

I would be glad now to recognize someone who has a provocative question, some question which would make the person to whom it is addressed lose that philosophic poise which all three of the main speakers have had today. Where is such a question?

Question: Mr. Mazur recommends or advises buying on installments. *Isn't that in the same nature as buying bonds, U. S. Government bonds and paying interest, paying for a thing more than it is worth? Why haven't the people enough money to buy as they go, to spend the money and pay the worth of an article instead of paying interest on it?*

THE CHAIRMAN: I think perhaps the Chairman might say for Mr. Mazur that if he could see to it that people always had the money with

which to buy the things they desired, he would favor cash purchases over the installment method. I dare say that Mr. Mazur has no preference for installment buying over cash buying, assuming there are a sufficient number of cash purchasers.

That is a very rare thing for the Chairman to undertake to answer a question. So I promise not to answer a provocative one, if you will give one.

Question: *Mr. Chairman, I would like to ask Professor Hamilton, who claims he doesn't know the way out, if he has read Henry George's work in which there is a chapter on this very question.*

Professor Hamilton: I think I can reply to that question very directly and very simply. I began very early in life disbelieving things. One of the first things that I read was Henry George's "Progress and Poverty." I think I gave that up in about eighteen months, largely because of the fact I do not find the universe as simple as it was set down. It is exactly the book I should expect to be produced in an agrarian age which is just passing in a society in which wealth is land. Then it was taught that the unearned increment was a product of the superiority of fertile soil over infertile soil.

I don't see that Henry George's "Progress and Poverty" is very relevant to the questions of the day. Ours is a machine culture. All of us are tied together in a great industrial system; ownership for the most part is represented by paper certificates. If there is unearned increment other than professors' salaries, it has a multifarious origin. In other words, I would regard a current belief in Henry George's "Progress and Poverty" as being a very conspicuous example of an attempt to solve the current problems of control in terms of the best of the thought of an agrarian society of about 1830.

The Chairman: I am sure that answer hasn't been satisfactory to everybody. I know it hasn't been satisfactory to our single tax friends, and so we are very fortunate to have here at the guest table a gentleman, a distinguished member of the New York Bar, Mr. Harry Weinberger, who says he would be delighted to show Professor Hamilton why Mr. Henry George's theory is a way out.

Mr. Harry Weinberger: Mr. McDonald wanted something with a little more excitement and perhaps the gentleman up in the balcony started it. If Professor Hamilton read "Progress and Poverty" so long ago, the probabilities are he has forgotten most of the book and he ought to go back and read it over again. I say that without any intention to belittle the Professor's speech, which I enjoyed so very much, especially his admission that he knew no "way out." Henry George's idea of taxing the land, or rather taking the full rental value of the land and taking off all taxes from industry, is not a rural form of economics. The same thing

applies today as it did then. The Professor might read the speech of 1885 of Mr. George, called "The Crime of Poverty," and if he didn't look at the date when it was delivered, he would imagine that he was hearing a speech of today. There was then the same so-called overproduction, the same unemployment, the same question of free trade or tariff, except that Henry George did have, in his opinion, and in my opinion, a "way out."

One of our friends said something about having a tremendous building boom, lending people money to build houses. Certainly, let's say a building boom right here in New York, — that is a city problem; that is a so-called civilized problem that we have in the cities. Suppose we all began to build houses or wanted to build houses, what would happen? Why the price of land would go up so greatly that after a while building would stop and you would have the same stagnation that you have today. You read about the New School down on 12th Street paying $200,000 or more for the mere fee of the land to build the building on. No one produced that land; no one except the community produced the value of that land. If I dropped 1,000,000 people in the City of New York tomorrow, the value of the land of the City of New York would go up tremendously, caused by the community being increased.

Might I state as an immediate way out perhaps that we take off all the taxes from all industry tomorrow? That might help industry, and put all the taxes upon the bare rental value of the ground, and certainly there wouldn't be any less ground tomorrow than there is today, except that the speculative value of the ground may have been taken away.

You find recurring depressions, as one of the speakers mentioned. You find it every five years or every ten years, or every two or three years, and the question is, "why?" Some people talk of overproduction. I am glad most of the speakers here today did not take that fallacious point of view, though some of them hinted at it.

The most marvelous description of short-sightedness in history is one of the old fables of a king who had a marvelous costume made and everybody said, "How beautiful and wonderful it is," until one child said, "Why, the king is naked." We too are short-sighted. We have this wonderful machinery making too much clothing so that millions are without clothes. We have agriculture that produces so much wheat that millions have to go hungry. There is no limit to human consumptive power. There is only underconsumption caused by inability to purchase, and the question is, "how or why?"

At the table here we were talking about emergency measures. There are certain emergency measures. That is not the thing I am going to talk about except to mention one or two. We might say this is an emergency like war and we will take 100 per cent of all incomes over $100,000 net for the coming year. We might say we will use the army for

some purpose beside killing, by turning the army loose with its army kitchens to feed the hungry and use the armories for the purpose of letting men and women without a place to lay their heads to at least keep warm.

The most that I can possibly do in my five minutes is drop a thought in your mind that may grow and lead you to investigate and read that book "Progress and Poverty" (and I wish my friend would go back and read it) and find out whether, if you took all taxes off industry, if you took all taxes off buildings and put them upon the bare rental value of the ground, it wouldn't create more jobs — create more jobs than men. When you have more jobs than men, wages go up and the consumption power and the demand for goods and food is increased. By employing the unemployed you produce more goods and under the law of supply and demand prices will come down. By taking the full rental value of the ground and removing absolutely the speculative value of ground, taking for the community that which the community creates, the value of ground today, you will not have building booms and speculations as we had in Florida, not building booms as you have down in New Jersey and also over in Queens every time they build a subway, every time they build a bridge. Every time science creates a new and better form of society, and population increases, the man and the individual who gets the most benefit is the one who owns the land.

If we had the best police department and the best fire department and the best schools and the cleanest streets and the best of everything here in the City of New York tomorrow, what would happen? An influx of people, and an increase in the value of the ground and a higher rent.

I am surprised here today with all the learned men at the table and I am surprised as I read all the articles on the "way out" that none of them talk about rent coming down and doing away with the speculative value of land which keeps people from the use of it. They tell you that in the pioneer form of society you did not have unemployment. That is the very thing which our complicated form of society stops us from seeing. If a savage, if a pioneer without the help of civilization and machinery can earn enough money to support himself, what is it, where does the tremendous value of increase of products go to when science teaches man how to turn out by the millions and the billions things that man could not do with his bare hands? So I say, my friends, if I have left just one real thought in your minds, if I have helped Professor Hamilton, if I have caused Professor Hamilton perhaps to think that maybe he will go back and read "Progress and Poverty" over again, this afternoon is not in vain as far as I am concerned. I thank you.

THE CHAIRMAN: I am sure that those of us who were students recently, or those of you here or in the radio audience who still are students and are having readings assigned to you in high school or college, will

enjoy having a professor told to go back and once more read a book before he talks about it.

I have a couple of questions here, one of them addressed to Mr. Dennison and the other addressed to Colonel Rorty. I will ask Mr. Dennison the question first. It refers to Mr. Dennison's suggestion of an unemployment reserve. It says, *"Is it reasonable to expect that the results of the Dennison plan can be attained in industries especially vulnerable in times of depression, such as automobile industries?"*

MR. DENNISON: If there is any more desolate form of bathos than to have a mere manufacturer follow an enthusiastic single-taxer, I never heard what it was. We now come down to the sober and let us say petty.

I don't see any difficulty in applying unemployment relief funds to any industry. In the first place, lacking full knowledge that would turn it into a complete insurance plan, we must for the time at any rate, I think, confine ourselves to the accumulation of funds, which funds shall be spent; when they are spent, they are done for. In the automobile industry or in any other, no matter how ragged it may become, it does, I read, have times of prosperity, when there are surpluses. Out of this surplus, funds can be reserved in those industries as well as any other, perhaps even better.

The question probably means to bring out the point, can those industries do anything towards regularization? I couldn't prescribe specific measures for any industry. There are, as I think Professor Hamilton has said, variants and they differ from each other tremendously. I only say this again, as I said in my talk, that having these funds, having these outpayments going on is an incitation to action toward regularization, and I am bound to believe that if one-tenth of the ingenuity, the engineering thought that has been put upon mechanical development should be put upon this social development, we would certainly make progress. Whether it would entirely eliminate the irregularities of the cycle or not, I haven't the faintest idea, but I doubt it myself. It would do something towards the diminishing of the severity of the cycle.

I recommend as the one measure which includes all others, if you like, because it incites all others, the establishment of an unemployment relief fund, because it does good by itself and it inspires the whole organization to do all they can, whatever that may turn out to be. I have always been surprised at the amount we could do that we thought we couldn't when we began. It inspires efforts to do all that is possible towards regularization not only seasonal, but cyclical.

THE CHAIRMAN: I have waited in vain for a combative question addressed to Colonel Rorty. Not having received it, I will ask him a technical question, which I do not quite understand, but he assures me he does and will explain the question first and then answer it. The question

is this: *"What would be the effect of increased purchases of open market investments by the Federal Reserve system?"*

COLONEL RORTY: This question relates to the technique of Federal Reserve banking. Such purchases and sales constitute the principal agency of control over the money market, which the Federal Reserve Banks possess, outside of their control of rediscount rates. They can make money easy, temporarily at least, by purchasing government bonds and bankers' acceptances, usually in large part from other banks, the member banks, or from the public, and they can tighten up on money by selling such holdings.

The question, I think, aims at the particular problem of the ability of the Federal Reserve system to start an upward movement in business at a time like this by making heavy purchases of government bonds and bankers' acceptances. The actual thing that takes place when the Federal Reserve banks buy government bonds is an immediate increase in the deposits with the member banks, since the proceeds from the sale of such bonds are immediately and in large part deposited with such banks. If the member banks are rediscounting heavily at such time with the Federal Reserve banks, the succeeding result is a reduction in these rediscounts.

If, however, it happens that the member banks are largely out of the Federal Reserve system—that is, have a minimum of rediscounts with the Federal Reserve Banks—then the immediate effect of such purchases is to increase the demand for other securities. In other words, the banks that receive the purchase money are not able to use such money to reduce their rediscounts and, in order to keep it earning, proceed to invest in other securities. In such case the effect will be to raise the prices of other securities in the open market.

Open market purchases by the Federal Reserve Banks can be carried far enough on occasion to have the effect of stimulating business through causing the member banks to loan somewhat more freely to those who desire to start new construction and new enterprises of various kinds.

At the present moment, however, we have extremely easy money. The lack is not of money, but of confidence. The banks are loaning privately at as low as one-half of 1 per cent. One great banker recently complained to me that money rates today were really zero per cent. He said, "I can't get anything for my surplus money. The nominal rates are of no use to me." Under these circumstances open market purchases of government bonds and bankers' acceptances probably would not act to increase business activities, but would react primarily on the bond markets.

THE CHAIRMAN: I am sure most of you are glad to know, here and in the radio audience, that it is not a lack of money which is really troubling us.

This meeting is adjourned.